

Business Situation

Final Estimates for the Fourth Quarter of 2001

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), the fourth-quarter 2001 rebound in real gross domestic product (GDP) and in real final sales of domestic product was somewhat more vigorous than was reported last month in the “preliminary” estimates. Real GDP is now estimated to have increased 1.7 percent in the fourth quarter, 0.3 percentage point more than in the preliminary estimates, and real final sales is estimated to have increased 3.8 percent, 0.2 percentage point more than in the preliminary estimates (table 1 and chart 1).¹ The source data underlying these and other revisions to the NIPAs are discussed in the section “Revisions.”

The final and preliminary estimates paint pictures

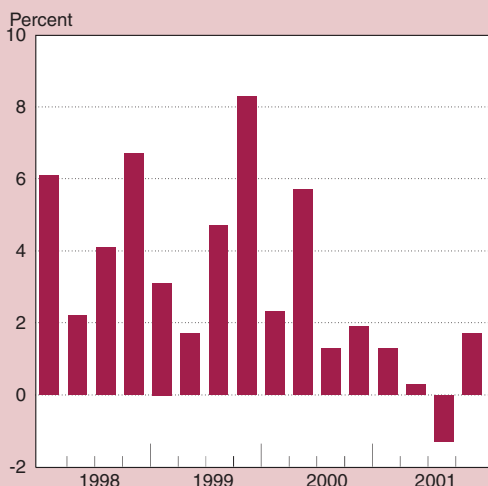
1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Daniel Larkins, Frederick von Batchelder, and Shelly Smith prepared this article.

CHART 1

Real Gross Domestic Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

of the economy that are similar in many important respects. In both estimates,

- The increase in fourth-quarter GDP reflected increases in consumer spending and in government spending (table 2).² Imports, which are subtracted in the calculation of GDP, decreased.
- The increase in GDP was damped by decreases in inventory investment, fixed investment, and exports.
- The upswing in GDP from the third quarter to the fourth primarily reflected accelerations in consumer spending and in government spending.

2. In the NIPAs, consumer spending is shown as personal consumption expenditures, government spending is shown as government consumption expenditures and gross investment, and inventory investment is shown as change in private inventories.

Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2001				2001			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	9,348.6	30.6	7.2	-31.3	38.2	1.3	0.3	-1.3	1.7
Less: Exports of goods and services	1,022.2	-3.4	-35.8	-56.1	-30.0	-1.2	-11.9	-18.8	-10.9
Plus: Imports of goods and services	1,434.9	-19.9	-33.6	-51.8	-28.3	-5.0	-8.4	-13.0	-7.5
Equals: Gross domestic purchases	9,737.0	16.0	10.0	-25.3	41.9	0.7	0.4	-1.0	1.7
Less: Change in private inventories	-119.3	-69.9	-11.2	-23.6	-57.4	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,830.3	76.7	19.9	-6.2	92.8	3.2	0.8	-0.3	3.9
Personal consumption expenditures	6,540.3	47.4	39.9	15.5	96.4	3.0	2.5	1.0	6.1
Durable goods	1,021.7	23.0	15.7	2.1	81.5	10.6	7.0	0.9	39.4
Nondurable goods	1,893.6	11.2	1.4	2.6	11.6	2.4	0.3	0.6	2.5
Services	3,658.2	16.3	24.7	10.6	17.8	1.8	2.8	1.2	2.0
Private fixed investment	1,621.9	8.2	-43.9	-24.8	-49.7	1.9	-9.7	-5.7	-11.4
Nonresidential	1,245.0	-0.6	-53.0	-28.9	-47.0	-0.2	-14.6	-8.5	-13.8
Structures	249.9	8.4	-9.4	-5.5	-26.9	12.3	-12.2	-7.5	-33.6
Equipment and software	1,005.6	-11.6	-44.5	-23.8	-13.8	-4.1	-15.4	-8.8	-5.3
Residential	376.0	7.6	5.4	2.2	-4.5	8.5	5.9	2.4	-4.6
Government consumption expenditures and gross investment	1,663.9	20.6	19.6	1.1	39.8	5.3	5.0	0.3	10.2
Federal	574.9	4.3	2.5	4.9	15.3	3.2	1.8	3.6	11.4
National defense	373.2	6.5	2.1	2.9	7.9	7.5	2.3	3.2	9.0
Nondefense	201.6	-2.2	0.5	2.0	7.3	-4.3	0.9	4.2	16.0
State and local	1,088.4	16.2	16.9	-3.6	24.6	6.4	6.6	-1.3	9.6
Addendum: Final sales of domestic product	9,440.9	91.1	17.0	-12.3	88.4	4.0	0.7	-0.5	3.8

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

- The strength in consumer spending was concentrated in durable goods, which registered its biggest increase since the third quarter of 1986. Motor vehicle purchases surged.
- The strength in government spending partly reflected an upturn in State and local government spending, which had decreased in the third quarter as a result of a large sale of existing structures.³ (The impact of this rebound on GDP was offset by a corresponding reduction in private nonresidential structures.)
- Inventories were liquidated for the fourth consecutive quarter. The pace of liquidation was almost twice as fast as the already rapid pace of the third quarter, and the ratio of real private inventories to

3. In the third quarter, the Port Authority of New York leased properties at the World Trade Center to two private corporations. In the NIPA's, such a transaction is treated as a sale of an existing asset. The transaction resulted in a \$12.8 billion decrease (in current dollars at an annual rate) in State and local government gross investment and an offsetting increase of the same amount in private net purchases of used structures.

Table 2. Contributions to Percent Change in Real Gross Domestic Product
[Seasonally adjusted at annual rates]

	2001			
	I	II	III	IV
Percent change at annual rate:				
Gross domestic product.....	1.3	0.3	-1.3	1.7
Percentage points at annual rates:				
Personal consumption expenditures	2.05	1.72	0.67	4.14
Durable goods	0.83	0.56	0.07	2.84
Nondurable goods	0.49	0.06	0.12	0.50
Services	0.73	1.10	0.48	0.80
Gross private domestic investment	-2.28	-2.16	-1.79	-4.12
Fixed investment.....	0.33	-1.74	-0.97	-1.96
Nonresidential.....	-0.02	-1.99	-1.08	-1.75
Structures	0.39	-0.44	-0.26	-1.27
Equipment and software.....	-0.41	-1.55	-0.82	-0.47
Residential	0.35	0.25	0.10	-0.21
Change in private inventories.....	-2.61	-0.42	-0.81	-2.16
Net exports of goods and services	0.63	-0.12	-0.27	-0.14
Exports	-0.13	-1.37	-2.13	-1.14
Goods	-0.19	-1.45	-1.55	-0.72
Services	0.06	0.08	-0.58	-0.42
Imports.....	0.76	1.25	1.86	1.00
Goods	0.87	1.21	1.20	0.40
Services	-0.11	0.05	0.66	0.59
Government consumption expenditures and gross investment.....	0.92	0.87	0.05	1.76
Federal	0.19	0.11	0.21	0.66
National defense	0.28	0.09	0.12	0.34
Nondefense.....	-0.09	0.02	0.09	0.32
State and local.....	0.73	0.76	-0.16	1.10

NOTE. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

final sales fell from 2.22 to 2.16—a record low level and the biggest quarter-to-quarter decrease since 1983.⁴

- The weakness in fixed investment was marked by
 - a third consecutive decrease in nonresidential structures,
 - a fifth consecutive decrease in nonresidential equipment and software, and
 - a decrease in residential investment after three quarterly increases.
- Real gross domestic purchases increased 1.7 percent after a third-quarter decrease of 1.0 percent.⁵
- The price index for gross domestic purchases increased after a third-quarter dip that reflected insurance expenditures associated with the terrorist attacks on September 11th.⁶
- Real disposable personal income decreased about 8 percent after jumping more than 12 percent, and the personal saving rate (measured as personal saving as a percentage of current-dollar disposable personal income) fell to 0.4 percent from 3.8 percent. These sharp movements primarily reflected large taxpayer refunds in the third quarter under the Economic Growth and Tax Relief Reconciliation Act of 2001.
- Real final sales of computers increased about 30 percent in the fourth quarter after decreasing in the second and third quarters, and real motor vehicle output increased for the third consecutive quarter.

4. Other real inventory-sales ratios reached their lowest levels since 1966 (see NIPA table 5.13B).

5. Gross domestic purchases is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

6. In the NIPA's, insurance expenditures are defined as premiums net of benefits; thus, the large benefit payments associated with the September 11th attacks resulted in a reduction in the average net price of insurance. See the box "The Terrorist Attacks of September 11th as Reflected in the National Income and Product Accounts," SURVEY OF CURRENT BUSINESS 81 (November 2001): 2–3. Revised estimates were presented in the box "Adjustments for the Terrorist Attacks," SURVEY 81 (December 2001): 2.

Revisions

The 0.3-percentage-point upward revision to real GDP growth in the fourth quarter is the same as the average revision (without regard to sign) from the preliminary to the final estimates over the past 20 years (table 3).

An upward revision to exports of services and a downward revision to imports of services combined to contribute 0.17 percentage point to the revision to real GDP. The revisions mainly reflected the incorporation of revised and newly available data from BEA's international transactions accounts.

An upward revision to consumer spending on services contributed another 0.05 percentage point to real GDP. The revision mainly reflected the incorporation of newly available data on bank service charges for the fourth quarter from the Federal Deposit Insurance Corporation (FDIC).

Revisions to nonresidential structures and to equipment and software each subtracted 0.04 percentage point to the real GDP revision. The revision to structures reflected revised Census Bureau data on construction put-in-place for November and December. The revision to equipment and software mainly reflected the incorporation of more complete data on receipts from software company reports to the Securities and Exchange Commission.

The price index for gross domestic purchases increased 0.5 percent according to the final estimate; the preliminary estimate had shown a 0.4-percent increase. The small revision primarily reflected revisions to prices of services purchased by consumers—specifically, the implicit price for imputed financial services was revised up on the basis of newly available data from the FDIC.

Table 3. Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 2001

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	1.4	1.7	0.3	5.9
Less: Exports	-12.2	-10.9	1.3	3.6
Plus: Imports	-6.9	-7.5	-0.6	-2.3
Equals: Gross domestic purchases	1.7	1.7	0.0	1.0
Less: Change in private inventories .....	.....	.....	.....	0.7
Equals: Final sales to domestic purchasers	3.9	3.9	0.0	0.4
Personal consumption expenditures	6.0	6.1	0.1	1.8
Durable goods	39.2	39.4	0.2	0.4
Nondurable goods	2.4	2.5	0.1	0.3
Services	1.8	2.0	0.2	1.1
Private fixed investment	-11.0	-11.4	-0.4	-1.9
Nonresidential	-13.1	-13.8	-0.7	-2.5
Structures	-32.6	-33.6	-1.0	-0.9
Equipment and software	-4.8	-5.3	-0.5	-1.3
Residential	-5.0	-4.6	0.4	0.3
Government consumption expenditures and gross investment	10.1	10.2	0.1	0.2
Federal	11.6	11.4	-0.2	-0.2
National defense	9.4	9.0	-0.4	-0.3
Nondefense	15.7	16.0	0.3	0.1
State and local	9.4	9.6	0.2	0.4
Addendum:				
Final sales of domestic product	3.6	3.8	0.2	5.3
Gross domestic purchases price index	0.4	0.5	0.1	.....
GDP price index	-0.2	-0.1	0.1	.....

NOTE: The final estimates for the fourth quarter of 2001 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Retail sales for December (revised), bank services data for the fourth quarter, and international transactions accounts data on net foreign travel for the fourth quarter.

Nonresidential fixed investment: Construction put-in-place for November and December (revised) and manufacturers' shipments of machinery and equipment for December (revised).

Residential fixed investment: Construction put-in-place for November and December (revised) and sales of new houses for October, November, and December (revised).

Exports and imports of goods and services: International transactions accounts data for the third quarter (revised) and the fourth quarter (new).

Government consumption expenditures and gross investment: Construction put-in-place for November and December (revised), detailed data on Federal civilian employment for November and December (revised), and detailed financial data for the fourth quarter from the Department of Defense.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for December (revised).

GDP prices: Export and import prices for October through December (revised), unit-value index for petroleum imports for December (revised), data on imputed financial services from the Federal Deposit Insurance Corporation, and prices of single-family houses under construction for the quarter (revised).

Gross National Product

Real gross national product (GNP) increased 2.6 percent in the fourth quarter after decreasing 1.3 percent in the third (table 4).⁷ The increase in GNP was larger than the increase in GDP because income receipts from the rest of the world decreased less than income payments to the rest of the world. The decrease in receipts was mainly accounted for by interest; the decrease in payments was about evenly split between interest and profits.

“Command-basis” GNP—which measures the purchasing power of goods and services produced by the U.S. economy—increased 1.8 percent in the fourth quarter (chart 2). The smaller increase in this measure than in GNP reflects a deterioration in the terms of

7. GNP is a measure of goods and services produced by labor and property supplied by U.S. residents. It is equal to GDP plus income receipts from the rest of the world less income payments to the rest of the world.

Table 4. Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2001				2001			
	IV	I	II	III	IV	I	II	III	IV
Gross domestic product	9,348.6	30.6	7.2	-31.3	38.2	1.3	0.3	-1.3	1.7
Plus: Income receipts from the rest of the world.....	270.4	-24.0	-30.7	-23.4	-25.8	-23.2	-30.7	-26.3	-30.6
Less: Income payments to the rest of the world.....	255.0	-10.6	-29.5	-23.9	-46.8	-11.1	-29.3	-26.2	-49.0
Equals: Gross national product	9,364.7	17.4	6.4	-30.6	59.8	0.8	0.3	-1.3	2.6
Less: Exports of goods and services and income receipts from the rest of the world.....	1,290.3	-29.1	-68.2	-80.2	-57.5	-7.4	-17.0	-20.6	-16.0
Plus: Command-basis exports of goods and services and income receipts from the rest of the world ¹	1,356.8	-20.5	-54.4	-34.4	-76.1	-5.2	-13.6	-9.0	-19.6
Equals: Command-basis gross national product	9,431.1	26.1	20.2	15.2	41.0	1.1	0.9	0.6	1.8
Addendum:									
Terms of trade ²	105.1	0.6	1.1	3.5	-1.2	2.4	4.4	14.3	-4.4

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

Note. See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

trade.⁸ The terms of trade had improved sharply in the third quarter.

The national saving rate—gross saving as a percentage of GNP—decreased to 16.6 percent, its lowest level since the third quarter of 1994.

8. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

CHART 2

Real Gross National Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

Corporate Profits

Profits from current production—which excludes non-operating items, such as special charges and capital gains and losses, and which is based on depreciation of fixed assets and inventory withdrawals valued at current cost—increased 17.9 percent (quarterly rate) in the fourth quarter of 2001 but was still 3.0 percent below its year-earlier level (table 5).⁹ In contrast, profits before tax—which is based on inventory and depreciation practices used in tax accounting—decreased 9.0 percent in the fourth quarter, and profits after tax decreased 10.6 percent.

The difference between the current-production measure and the tax-accounting measures primarily reflects the effect of retroactive provisions of the Job Creation and Worker Assistance Act of 2002, which allowed increased depreciation, leading to lower profits on a tax-accounting basis (see the box, page 6).

In both measures, the change from the third to the fourth quarter reflected several special circumstances. In the third quarter, profits of insurance companies

had been reduced about \$40 billion by payments of benefits in the wake of the September 11th terrorist attacks, and airline profits had been increased \$20 billion by subsidies provided in the special airline bill passed by Congress after the attacks. In both the third and the fourth quarters, profits were reduced \$9.0 billion (annual rate) by settlement payments to the States by tobacco companies.

Large increases in profits from current production were recorded by domestic nonfinancial corporations, domestic financial corporations, and the rest-of-the-world sector. For domestic nonfinancial corporations, the increase mainly reflected a rise in unit profits (after five consecutive quarterly decreases), as unit costs decreased more than unit prices. An increase in the real output of domestic nonfinancial corporations also boosted profits.¹⁰

The increase in profits of domestic financial corporations partly reflected the rebound in insurance profits.

The increase in profits from the rest of the world

9. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments. Percent changes in profits are shown at quarterly, not annual, rates.

10. "Output" here is nonfinancial corporate gross product. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output and is measured as the sum of income generated by these businesses.

Table 5. Corporate Profits
[Quarterly estimates seasonally adjusted]

	Billions of dollars (annual rate)						Percent change from preceding period ¹			
	Level		Change from preceding period							
	2001	2001	2000	2001	2001		2000	2001	2001	
		IV			III	IV			III	IV
Profits from current production	767.1	822.0	51.2	-109.3	-62.8	125.0	6.2	-12.5	-8.3	17.9
Domestic industries.....	617.8	655.0	29.1	-121.8	-64.9	104.1	4.1	-16.5	-10.5	18.9
Financial.....	167.3	183.0	9.2	-22.2	-29.3	46.9	5.1	-11.7	-17.7	34.5
Nonfinancial.....	450.5	472.0	19.8	-99.6	-35.6	57.2	3.7	-18.1	-7.9	13.8
Rest of the world.....	149.3	167.0	22.2	12.5	2.1	20.9	19.3	9.1	1.5	14.3
Receipts (inflows).....	190.8	182.2	31.6	-14.1	-8.1	-3.7	18.2	-6.9	-4.2	-2.0
Payments (outflows).....	41.5	15.2	9.4	-26.6	-10.2	-24.6	16.0	-39.0	-20.5	-61.7
I.V.A.....	2.2	16.6	-9.5	14.6	11.9	13.5	.....	.....	.....	.....
CCAdj.....	66.4	186.1	-8.3	23.0	-16.9	172.7	.....	.....	.....	.....
Profits before tax.....	698.5	619.4	69.1	-146.9	-57.7	-61.2	8.9	-17.4	-7.8	-9.0
Profits tax liability.....	216.0	194.1	18.5	-55.5	-23.1	-10.8	7.3	-20.4	-10.1	-5.3
Profits after tax.....	482.5	425.2	50.6	-91.4	-34.7	-50.4	9.7	-15.9	-6.8	-10.6
Profits from current production less tax liability	551.2	627.9	32.7	-53.8	-39.8	135.9	5.7	-8.9	-7.5	27.6
Cash flow from current production.....	933.1	997.1	54.5	-19.3	13.5	78.5	6.1	-2.0	1.5	8.5
Domestic industry profits:										
Corporate profits of domestic industries with I.V.A.....	551.4	468.9	37.5	-144.9	-47.9	-68.6	5.7	-20.8	-8.2	-12.8
Financial.....	180.0	181.2	13.4	-24.4	-29.9	27.8	7.0	-12.0	-16.3	18.1
Nonfinancial.....	371.4	287.7	24.0	-120.4	-18.0	-96.4	5.1	-24.5	-4.5	-25.1
Manufacturing.....	79.5	50.3	-8.5	-75.7	-9.4	-33.7	-5.2	-48.7	-10.0	-40.1
Transportation and public utilities.....	52.4	25.7	8.4	-15.0	-7.8	-29.1	14.2	-22.3	-12.5	-53.1
Wholesale trade.....	40.4	41.9	6.7	-20.1	11.4	-3.5	12.5	-33.3	33.4	-7.6
Retail trade.....	85.5	84.3	4.7	3.7	1.7	-3.0	6.1	4.5	2.0	-3.5
Other.....	113.6	85.5	12.7	-13.3	-13.9	-27.1	11.1	-10.5	-11.0	-24.0
Dollars										
Unit price, costs, and profits of nonfinancial corporations:										
Unit price.....	1.062	1.061	0.026	0.019	0.007	-0.008	.....	.....	.....	.....
Unit labor cost.....	0.713	0.709	0.020	0.028	0.007	-0.012	.....	.....	.....	.....
Unit nonlabor cost.....	0.262	0.262	0.007	0.011	0.008	-0.007	.....	.....	.....	.....
Unit profits from current production.....	0.086	0.090	-0.001	-0.021	-0.006	0.010	.....	.....	.....	.....

1. Quarterly percent changes are not annualized.

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

I.V.A Inventory valuation adjustment

CCAdj Capital consumption adjustment

was more than accounted for by a sharp reduction in outflows from domestic affiliates of foreign corporations.¹¹

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$78.5 billion after increasing

11. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

\$13.5 billion.¹² The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased from 74.6 percent to 84.4 percent, its highest value since the second quarter of 1997 and very close to its average level (84.0 percent) during 1991–99.

Profits with inventory valuation adjustment. In contrast to the sharp increase in profits from current

12. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Retroactive Provisions of the Job Creation and Worker Assistance Act of 2002

Estimates of corporate profits for the fourth quarter of 2001 reflect certain retroactive provisions of the Job Creation and Worker Assistance Act of 2002, which was signed into law on March 9, 2002. The act includes the following provisions that are related to depreciation and to the carryback period for net operating losses:

- An immediate writeoff of 30 percent is allowed on certain investments contracted for after September 10, 2001, and before September 11th, 2004;
- Tax benefits retroactive to September 11th are included for the area of New York City that was damaged in the terrorist attacks; and
- For tax year 2002 and for tax year 2001, the period for carrying back net operating losses is temporarily extended from 2 years to 5 years.

These provisions increased the depreciation that corporations could claim in the fourth quarter by \$146.5 bil-

lion and, thus, reduced profits before taxes (PBT) by the same amount (table A).¹ (PBT is based on the inventory- and depreciation-accounting practices used for Federal corporate income tax returns.) As a result, profits tax liability was reduced \$35.3 billion, and profits after tax were reduced \$111.2 billion.

Profits from current production were not affected by the act, because they do not depend on the depreciation-accounting practices used for Federal income tax purposes; instead, this measure of profits is based on an estimate of the value of fixed capital actually used up in the production process.² However, because the act did reduce tax liability, profits from current production *on an after-tax basis* were raised \$35.3 billion.

The capital consumption adjustment (CCAdj) is the difference between the depreciation specified in the tax code and the depreciation underlying profits from current production. Because the act raised tax depreciation \$146.5 billion, the CCAdj was increased by the same amount.

As with profits from current production, the effects of the retroactive provisions of the act on nonfarm proprietors' income with IVA and CCAdj were offsetting; nonfarm proprietors' income without IVA and CCAdj was reduced and the related CCAdj was increased by the same amounts. The other major NIPA components or aggregates were not affected.

Table A. Effects of the Job Creation and Worker Assistance Act of 2002 on Selected Measures of Corporate Profits
[Seasonally adjusted at annual rates]

	Billions of dollars			Percent change ⁱ
	Level		Change	
	2001:III	2001:IV	2001:IV	
Profits before tax.....	680.6	619.4	-61.2	-9.0
Tax effect*.....		-146.5		
Excluding tax effect.....	680.6	765.9	85.3	12.5
Tax liability.....	204.9	194.1	-10.8	-5.3
Tax effect*.....		-35.3		
Excluding tax effect.....	204.9	229.4	24.5	12.0
Profits after tax.....	475.6	425.2	-50.4	-10.6
Tax effect*.....		-111.2		
Excluding tax effect.....	475.6	536.4	60.8	12.8
Profits from current production.....	697.0	822.0	125.0	17.9
Tax effect*.....		0.0		
Excluding tax effect.....	697.0	822.0	125.0	17.9
Profits from current production less tax liability.....	492.1	627.9	135.8	27.6
Tax effect*.....		35.3		
Excluding tax effect.....	492.1	592.6	100.5	20.4

* Estimated impact of the retroactive provisions of the Job Creation and Worker Assistance Act of 2002.

1. Not at annual rates.

1. The effect of the legislation was incorporated into the NIPA estimates on a "best-change" basis. Thus, the adjustments reflect the changes from the revised third-quarter levels of a series to the revised fourth-quarter levels. The quarterly levels of these series will be revised to incorporate the effects of the act in the upcoming NIPA annual revision scheduled for release on July 31, 2002. Taxes paid by proprietors are recorded in the NIPA's as personal taxes and are recorded on a cash basis; thus, the effects of the act on personal taxes paid by proprietors will be reflected in the estimates for 2002.

2. This estimate is derived by valuing assets at current cost and by using consistent depreciation profiles based on used-asset prices.

production, profits with inventory valuation adjustment (IVA) decreased sharply. The difference between the two measures is the capital consumption adjustment (CCAdj), which increased sharply, reflecting the depreciation that corporations could claim for Federal corporate income taxes under the retroactive provisions of the Job Creation and Worker Assistance Act of 2002 (see the box).

Estimates of the CCAdj do not exist at the detailed industry level; they are available only for total financial and total nonfinancial industries. For all major categories of nonfinancial industries, profits with IVA fell (chart 3). Profits of manufacturing, of the transportation group, and of "other" nonfinancial corporations all dropped very sharply; profits of wholesale and retail trade decreased less.¹³ Within manufacturing, two of the biggest decreases were posted by motor vehicles and by petroleum; large decreases were also posted by manufacturers of "other durable goods" and "other nondurable goods."¹⁴

13. "Other" nonfinancial corporations include the agriculture, mining, construction, and services industries, along with some activities included in the "finance, insurance, and real estate" group.

14. "Other" durable-goods manufacturing includes the lumber, furniture, stone, transportation equipment excluding motor vehicles, instruments, and miscellaneous manufacturing industries. "Other" nondurable-goods manufacturing includes the tobacco, textile, apparel, paper, printing, rubber, and leather industries.

The year 2001. Although profits from current production ended the year with a large increase, for the year as a whole they were down \$109.3 billion (12.5 percent), to \$767.1 billion; in 2000, they had increased \$51.2 billion (6.2 percent).¹⁵ Domestic nonfinancial corporations accounted for most of the decrease in 2001, as a decrease in profits per unit more than offset an increase in output, but profits of domestic financial corporations also decreased. These decreases in domestic profits were partly offset by an increase in profits from the rest of the world that reflected a bigger decrease in payments by domestic affiliates of foreign corporations than in receipts from foreign affiliates of U.S. corporations.

Domestic profits with IVA decreased \$144.9 billion. The weakness was widespread. Profits of both financial and nonfinancial corporations decreased, and in nonfinancial corporations, profits of most major industry groups were lower in 2001 than in 2000.

Profits before tax decreased more than profits from current production. The difference between the two measures reflected increases in both the CCAdj and the IVA.

15. These changes are calculated from *annual* levels for 2000 and 2001. Current-production profits in the fourth quarter of 2001 profits were \$25.6 billion (3.0 percent) less than in the fourth quarter of 2000.

CHART 3

**Corporate Profits with Inventory Valuation Adjustment:
Change from 2001:III to 2001:IV**

Billion \$



1. Also includes communications and public utilities.

2. "Other" nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the "finance, insurance, and real estate" group.

Note.—Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis

Government Sector

The fiscal position of the government sector, as measured by the combined current position of the Federal Government and of State and local governments, shifted from a current deficit of \$11.7 billion in the third quarter to a current surplus of \$122.2 billion in the fourth quarter (table 6).¹⁶ The shift was mostly attributable to an upturn in the Federal fiscal position, but a rise in the State and local current surplus also contributed.

Federal

Fueled by a sharp upturn in current receipts, the fiscal position of the Federal Government shifted from a current deficit of \$13.6 billion in the third quarter to a current surplus of \$97.4 billion in the fourth. Current expenditures decelerated.

Current receipts. Federal current receipts increased \$119.6 billion in the fourth quarter after decreasing \$184.4 billion in the third. The upturn was mostly accounted for by an upturn in personal tax and nontax receipts. Corporate profits tax accruals and indirect business tax and nontax accruals decreased less in the fourth quarter than in the third. In contrast, contributions for social insurance turned down in the fourth quarter.

Personal tax and nontax receipts increased \$134.6 billion after decreasing \$162.8 billion. The sharp upturn was accounted for by an upturn in income taxes, which increased \$134.8 billion after decreasing \$162.6 billion. Refunds, which are an offset to income tax receipts, were boosted \$140.7 billion in the third quarter as a result of provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001.

Corporate profits tax accruals decreased \$11.0 billion, following a \$19.9 billion decrease. The fourth-quarter decrease was more than accounted for by provisions of the Job Creation and Worker Assistance Act of 2002 (for details, see the box on page 6).

Indirect business tax and nontax accruals decreased \$0.7 billion after decreasing \$1.8 billion. The smaller decrease was more than accounted for by excise taxes, which decreased \$0.1 billion after decreasing \$2.1 billion. Excise taxes on gasoline turned up, increasing \$0.2 billion after a \$0.8 billion decrease. Air transport excise taxes decreased \$0.5 billion, following a \$1.2 billion decrease. Third-quarter air transport tax receipts were reduced because of the airport closures that re-

sulted from the terrorist attacks on the World Trade Center and the Pentagon on September 11th, 2001, and as a result of fewer passengers after the airports reopened.

Contributions for social insurance decreased \$3.2 billion after increasing \$0.1 billion. The downturn primarily reflected a downturn in contributions for social security (old-age, survivors, disability, and health insurance), which decreased \$3.3 billion after no change.

Table 6. Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	2001	2001				
	IV	I	II	III	IV	
Current Receipts	3,060.8	22.9	7.7	-177.2	133.5	
Current expenditures	2,938.6	46.5	27.3	42.5	-0.4	
Current surplus or deficit (-)	122.2	-23.6	-19.6	-219.7	133.9	
Social insurance funds	97.6	-8.4	-2.7	-8.8	-6.6	
Other	24.6	-15.1	-16.8	-211.0	140.5	
Federal Government						
Current Receipts	2,026.7	9.9	4.1	-184.4	119.6	
Personal tax and nontax receipts	1,031.8	10.9	8.6	-162.8	134.6	
Corporate profits tax accruals	166.4	-14.4	-7.7	-19.9	-11.0	
Indirect business tax and nontax accruals	109.5	-0.5	-0.2	-1.8	-0.7	
Contributions for social insurance	719.1	13.9	3.4	0.1	-3.2	
Current expenditures	1,929.3	27.1	22.6	16.0	8.6	
Consumption expenditures	525.0	13.4	2.6	3.6	11.3	
National defense	347.9	13.0	1.2	3.6	4.8	
Nondefense	177.0	0.4	1.4	0.0	6.4	
Transfer payments (net)	853.1	8.8	11.6	15.3	14.5	
To persons	840.5	28.4	10.5	14.6	9.6	
To the rest of the world	12.6	-19.7	1.3	0.6	4.9	
Grants-in-aid to State and local governments	285.0	13.9	17.2	-14.8	18.6	
Net interest paid	219.1	-6.4	-11.0	-10.0	-13.4	
Subsidies less current surplus of government enterprises	47.1	-2.7	2.2	21.9	-22.4	
Subsidies	38.1	-2.1	0.1	20.7	-22.6	
Of which: Agricultural subsidies	15.1	-2.7	-0.3	0.4	-3.4	
Less: Current surplus of government enterprises	-9.1	0.5	-2.1	-1.1	-0.3	
Less: Wage accruals less disbursements	0.0	0.0	0.0	0.0	0.0	
Current surplus or deficit (-)	97.4	-17.2	-18.6	-200.3	111.0	
Social insurance funds	97.7	-8.6	-2.9	-8.8	-6.6	
Other	-0.3	-8.6	-15.7	-191.4	117.5	
State and local governments						
Current Receipts	1,319.1	27.0	20.9	-7.7	32.5	
Personal tax and nontax receipts	300.9	4.5	-2.4	6.8	2.7	
Corporate profits tax accruals	27.8	-2.3	-1.1	-3.2	0.3	
Indirect business tax and nontax accruals	694.5	10.6	6.9	3.3	10.8	
Contributions for social insurance	10.9	0.2	0.3	0.2	0.1	
Federal grants-in-aid	285.0	13.9	17.2	-14.8	18.6	
Current expenditures	1,294.3	33.3	21.9	11.7	9.6	
Consumption expenditures	997.7	16.7	14.6	9.9	6.5	
Transfer payments to persons	297.6	5.1	5.4	4.5	4.8	
Net interest paid	-1.1	-0.3	-0.3	-0.1	-0.2	
Less: Dividends received by government	0.4	0.0	0.0	0.0	0.0	
Subsidies less current surplus of government enterprises	0.5	11.8	2.2	-2.6	-1.5	
Subsidies	10.5	12.2	2.5	-3.2	-1.4	
Less: Current surplus of government enterprises	10.0	0.3	0.3	-0.6	0.1	
Less: Wage accruals less disbursements	0.0	0.0	0.0	0.0	0.0	
Current surplus or deficit (-)	24.8	-6.3	-1.0	-19.4	22.9	
Social insurance funds	-0.1	0.2	0.1	0.1	0.0	
Other	24.9	-6.5	-1.2	-19.4	22.9	
Addendum:						
Net lending or net borrowing (-) ¹	15.3	-23.3	-34.0	-205.7	107.6	
Federal government	76.6	-10.3	-26.0	-208.0	109.9	
State and local government	-61.2	-13.0	-8.0	2.3	-2.3	

16. Net saving equals gross saving less consumption of fixed capital (CFC). The estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1.

For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 2000 and 2001, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

1. "Net lending or borrowing" is conceptually similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

Current expenditures. Current expenditures increased \$8.6 billion in the fourth quarter after increasing \$16.0 billion in the third. The deceleration was more than accounted for by a sharp downturn in “subsidies less current surplus of government enterprises.” In contrast, grants-in-aid to State and local governments turned up.

“Subsidies less current surplus of government enterprises” decreased \$22.4 billion after increasing \$21.9 billion. The sharp downturn was more than accounted for by subsidies, which decreased \$22.6 billion after increasing \$20.7 billion. In the third quarter, airlines received \$5.0 billion (\$20.0 billion at an annual rate) in Federal Government aid as part of the Air Transportation Safety and System Stabilization Act.¹⁷ The current surplus of government enterprises, which is an offset to subsidies, decreased \$0.3 billion after a \$1.1 billion decrease. Within enterprises, the U.S. Postal Service current surplus decreased \$0.3 billion after a \$0.9 billion decrease.

Net interest paid decreased \$13.4 billion, following a \$10.0 billion decrease. Gross interest paid decreased \$11.6 billion after decreasing \$9.3 billion, reflecting larger decreases in interest paid to persons and business and to the rest of the world.

“Transfer payments to persons (net)” increased \$14.5 billion, following a \$15.3 billion increase. The deceleration was more than accounted for by transfer payments to persons, which increased \$9.6 billion after a \$14.6 billion increase. The deceleration was mainly accounted for by benefit payments for social security (old-age, survivors, and disability insurance), which decreased \$0.5 billion after a \$4.4 billion increase. In the third quarter, one-time, retroactive social security payments were made to correct the underpayment of benefits associated with an error in the indexing of the benefits. In contrast, transfer payments to the rest of the world accelerated, increasing \$4.9 billion after a \$0.6 billion increase.

Grants-in-aid to State and local governments turned up, increasing \$18.6 billion after decreasing \$14.8 billion. Grants for State Medicaid programs, for education, and for health and hospitals (including payments to States for children’s health insurance programs) turned up.

Consumption expenditures accelerated, increasing \$11.3 billion after increasing \$3.6 billion. The acceleration was primarily attributable to nondefense consumption expenditures, which increased \$6.4 billion after no change. Within nondefense consumption expenditures, services accelerated, increasing \$4.4 billion after a \$0.8 billion increase; “other services” (which in-

clude expenditures for research and development, for utilities, and for travel), turned up. Nondurable goods also turned up, increasing \$1.8 billion after a \$0.7 billion decrease. Within nondurable goods, the Commodity Credit Corporation inventory change turned up, increasing \$1.4 billion after a \$0.4 billion decrease.

Defense consumption expenditures increased \$4.8 billion after a \$3.6 billion increase. The acceleration was more than accounted for by an acceleration in services, which increased \$6.4 billion after a \$2.1 billion increase. Within services, “other services” (which include expenditures for research and development, for installation support, and for personnel support), accelerated, increasing \$3.3 billion after a \$0.8 billion increase. Also within services, compensation accelerated, increasing \$2.8 billion after a \$1.5 billion increase. In contrast, durable goods turned down, decreasing \$1.4 billion after a \$2.0 billion increase; spending on parts for aircraft and for ships turned down.

State and local

The State and local government current surplus increased \$22.9 billion in the fourth quarter after decreasing \$19.4 billion in the third. Current receipts turned up, and current expenditures decelerated.

Current receipts. State and local government current receipts increased \$32.5 billion after decreasing \$7.7 billion. The turnaround was primarily accounted for by an upturn in Federal grants-in-aid. Indirect business tax and nontax accruals accelerated, and corporate profits tax accruals turned up slightly. In contrast, personal tax and nontax receipts decelerated.

Indirect business tax and nontax accruals increased \$10.8 billion after increasing \$3.3 billion. The acceleration was mainly accounted for by sales taxes, which increased \$7.6 billion after increasing \$0.2 billion. General sales taxes turned up, reflecting an upturn in general retail sales in the fourth quarter.

Corporate profits tax accruals increased \$0.3 billion, following a \$3.2 billion decrease. The fourth-quarter increase was dampened as a result of provisions of the Job Creation and Worker Assistance Act of 2002 (for details, see the box on page 6).

Personal tax and nontax receipts increased \$2.7 billion after increasing \$6.8 billion. The deceleration was more than accounted for by personal income taxes, which increased \$1.9 billion after increasing \$6.1 billion.

Current expenditures. Current expenditures increased \$9.6 billion after increasing \$11.7 billion. The deceleration was more than accounted for by a deceleration in consumption expenditures.

Consumption expenditures increased \$6.5 billion after increasing \$9.9 billion. The deceleration was

17. In the NIPA’s, subsidies are recorded on an accrual basis.

largely accounted for by nondurable goods, which decreased \$5.3 billion after decreasing \$2.1 billion. Within nondurable goods, petroleum products continued to decrease.

“Subsidies less current surplus of government enterprises” decreased \$1.5 billion after decreasing \$2.6 billion. The smaller decrease was more than accounted for by subsidies, which decreased \$1.4 billion after decreasing \$3.2 billion; electricity purchases by the State of California continued to decrease. The current surplus of government enterprises turned up, increasing \$0.1 billion after decreasing \$0.6 billion; in the third quarter, enterprise revenues for airports and tunnels fell as a result of the events of September 11th, 2001, and of the subsequent reduction in air traffic.

Net lending or net borrowing

“Net lending or net borrowing (–)” is an alternative measure of the Government fiscal position. Net lending is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

The government fiscal position shifted from net borrowing of \$92.3 billion in the third quarter to net lending of \$15.3 billion in the fourth quarter, reflecting a sharp shift in the Federal Government fiscal position. State and local government net lending decreased in the fourth quarter.

Government gross investment increased \$25.7 billion after decreasing \$12.1 billion.¹⁸ The upturn was mostly attributable to State and local government gross investment, which increased \$21.0 billion after decreasing \$14.2 billion. The upturn was accounted for by investment in structures, which returned to a more normal level after a drop in the third quarter that reflected the lease of the World Trade Center (see footnote 3).

18. See also table 3.7 on page D–10 in this issue.

The government sector in 2001

The combined current surplus of the Federal Government and of State and local governments decreased \$114.9 billion, to \$136.5 billion, in 2001. The decrease was mostly accounted for by a decrease in the Federal Government current surplus.

The Federal Government current surplus decreased \$99.6 billion, to \$119.0 billion, in 2001. Current receipts decreased, while current expenditures increased.

Federal current receipts decreased \$18.6 billion, to \$2,028.2 billion. Corporate profits tax accruals decreased \$48.2 billion, and indirect business taxes decreased \$0.3 billion. In contrast, contributions for social insurance increased \$29.1 billion, and personal tax and nontax receipts increased \$0.6 billion.

Federal current expenditures increased \$80.9 billion, to \$1,909.2 billion. “Transfer payments (net)” increased \$52.4 billion, grants-in-aid to State and local governments increased \$28.6 billion, consumption expenditures increased \$20.4 billion, and “subsidies less current surplus of government enterprises” increased \$5.6 billion. In contrast, net interest paid decreased \$26.0 billion.

The State and local government current surplus decreased \$15.2 billion, to \$17.6 billion, in 2001. Current expenditures increased more than current receipts.

State and local current receipts increased \$70.7 billion, to \$1,293.3 billion. Indirect business tax and nontax accruals increased \$31.5 billion, Federal grants-in-aid increased \$28.6 billion, personal tax and nontax receipts increased \$17.4 billion, and contributions for social insurance increased \$0.6 billion. In contrast, corporate profits tax accruals decreased \$7.4 billion.

State and local current expenditures increased \$86.0 billion, to \$1,275.8 billion. Consumption expenditures increased \$55.2 billion, transfer payments to persons increased \$19.7 billion, and “subsidies less current surplus of government enterprises” increased \$11.6 billion. In contrast, net interest paid decreased \$0.5 billion.